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## Crude Oil Price Plunges Again as Futures Market Goes Haywire

Crude oil's supply and demand imbalance is unlikely to resolve quickly. In the near term, we expect further price swings and price declines as uncertainties persist.

### What Happened & Our Take

The price of crude oil crashed overnight—from April 19 to April 20—as the May futures contract finished in **negative territory**, which effectively means sellers **paying** \$37.63 per barrel to deliver.<sup>†</sup> The immediate cause appears to be more technical in nature as evidenced by the mismatch in pricing between upcoming futures contracts. The June futures contract was priced at \$21.22/per barrel compared to the -\$37.63 for the May contract, which expires on April 21, 2020, and a far cry from Friday's closing price of \$18.27.

Meanwhile, spot prices have continued to slide, as they have for months. The OPEC+ countries announced a deal—roughly a week ago—to cut production by nearly 10 million barrels a day. The plunge in crude oil demand due to the COVID-induced global lockdown has caused global storage to reach capacity. With nowhere else to put the oil, the lack of storage capacity has enforced production cuts better than any OPEC agreement could.

Thus, with declining spot prices and expiring futures contracts, there is little incentive for companies or investors to buy the May contract, which is widely perceived by markets as a “guaranteed” money loser.

### What's Next

Sentiment is extremely bearish for crude oil globally and, similarly, for energy stocks due to a higher than normal degree of uncertainty for both supply and demand.

Production cuts take time, and investors do not have a perfect view into production or capacity, relying heavily on government reports for each. Additionally, with stay-at-home orders still in place and no insight on how quickly activity will restart (and at what pace), the demand picture remains cloudy.

<sup>†</sup> Crude oil prices quoted in West Texas Intermediate (WTI) unless otherwise noted.

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With uncertain demand and global production unlikely to be resolved in the next three weeks or so, the June futures contract also appears to be at risk. The June futures contract will expire on May 19, 2020, but as occurred in the past week, investors are unlikely to wait until the expiration to reposition.

Therefore, we would forewarn that the price of crude oil will remain volatile until markets reach an equilibrium price, which tends to take weeks or months rather than days. We would also avoid speculating in a rapidly shifting market with very little clarity on supply or demand.

### **Bottom Line**

Monday's extreme price move appears to be an overshoot. Still, the price of crude oil will likely remain depressed due to the plunge in demand as a result of the COVID-induced global lockdown.

Despite a production cut from the OPEC+ countries, the larger near-term issues are limited storage capacity and demand. Furthermore, these issues are likely to persist through mid-May, putting the June futures contract at risk. The price of crude oil will certainly trade lower, but will not hazard a price guesstimate since futures markets have gone haywire.



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